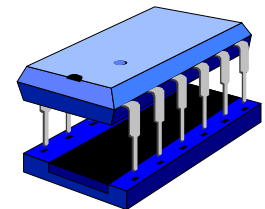
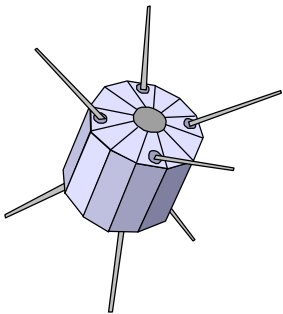


Price Analysis in Commercial Acquisitions



Maj Garry Shafovaloff, SAF/AQCP
shafovag@af.pentagon.mil, DSN 225-0042

Overview

- FASA ...FARA
- New Price Analysis Challenge
- What will we price?
- What are the new commercial items?
- Training
- Other GSA, Part 15 Phase 2
- FeedbackWhat's Next?

FASA Versus FARA.....

- **WAS....**Under FASA - If could determine price reasonableness through price analysis then could provide TINA exception for commercial item
- **IS....**Under FARA - If it's a commercial item then commercial item TINA exception applies

FARA/FAC 90-45, 2 Jan 97

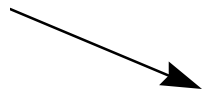
- FAC 90-45 implements changes to TINA from Clinger-Cohen Act of 1996 (AKA FARA)
- Simplified obtaining a TINA exception for commercial items by eliminating distinction between catalog or market-priced commercial items and all other commercial items
- Eliminated subordination of the commercial item exception to the traditional exceptions required by FASA
- Eliminated FASA's special recognition of data needs when pricing non-competitive commercial items
- Eliminated clause for postaward audit of information submitted in support of commercial item pricing

Commercial Item TINA Exception

FAR 15.804-1 (FAC 90-45)

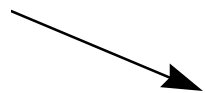
The TINA
Exception

The contracting officer shall not require submission of cost or pricing data (but may require info other than cost or pricing data to support a determination of price reasonableness or cost realism) - ...



The FAR
Standard

(2) For acquisition of a commercial item (see exception standards at para (b)(3) of this subsection).



(b)(3) Commercial Items. An acquisition for an item that meets the commercial item definition in 2.101 is excepted from the requirement to obtain cost or pricing data

Is it a Commercial Item?

Commercial Item Definition

FAR 2.101 (FAC 90-32)

- Any item of a type used for nongovernmental purposes that has been sold, leased, or licensed to the general public or offered to the general public
- Any item that evolved from an above item
- Any item that would meet these criteria except for customary modifications or minor modifications typically not available in the marketplace

Know the item, Know the Marketplace

Requiring Information Other Than Cost or Pricing Data (FAR 15.804-5)

- If cost or pricing data are not required because an exception applies, ... the contracting officer shall conduct a price analysis to determine the reasonableness of price and any need for further negotiation

*Must Do Price Analysis
You Can Negotiate*

Requiring Information Other Than Cost or Pricing Data (FAR 15.804-5)

- The CO shall require submission of information other than cost or pricing data only to the extent necessary to determine reasonableness of price or cost realism

and for Commercial Items....

-shall obtain at a minimum, appropriate info on the prices at which the same item or similar items have previously been sold that is adequate for evaluating the reasonableness of the price.

Obtain at a minimum...but only to the extent necessary

Requiring Information Other Than Cost or Pricing Data

(FAR 15.804-5)

And also for Commercial Items....

- Requests for sales data shall be limited to
 - Data for the same or similar items during a relevant time period
 - In the form regularly maintained by the offeror in commercial operations

New Price Analysis Challenge

- For many... doing price analysis after years of experience and being schooled heavily in cost analysis
- Determining price reasonableness in non-competitive situations, for high dollar value items....without cost or pricing data

Cultural Shift....Training

What will we price?

- Restructure(s) of programs
- Modifications to extend life of systems
- Buying more of mature weapon systems
- Some new major systems
- Spares
- Performance-defined deliverables instead of “build-to” deliverables
- Increase in Outsourcing/Services? YES!
- Surge of new DoD buying in early 2000's??

Training

- CON 104 - one week on Vol I Price Analysis
- CON 2XX/235
 - 11 Offering planned for FY98
 - Text - Statistical Thinking and Data Analysis Methods for Managers, Wynn Anthony Abranovic
 - Covers
 - Know when to conduct market research
 - Know sources to search for market info
 - Know types of info to retrieve
 - Know how to assess best practices
 - Use market data to estimate price and range
 - Understand how to review data to produce IGE
 - Performing price analysis

Training - Reference Material

- Contract Pricing Reference Guide Volume 1 AFIT/FAI (Jan 97) [<http://www.gsa.gov/staff/v/guides/volumes.htm>]
- Kuzdrall and Britney; Price and Discount Schedule Analysis, Quorum Books, NY 1991
- Fearon, Dobler, Killen; The Purchasing Handbook, McGraw Hill, 1993
- Graw, Leroy; Cost/Price Analysis, Tools to Improve Profit Margins; Van Nostrand Reinhold, NY, 1994
- Burt, Norquist, Anklesaria; Zero Base Pricing - Achieving World Class Competitiveness through Reduced All - In - Costs; Irwin, 1990

Other - GSA Research

- GSA's Anthology of Commercial T&C's
- www.arinet.gov/References/fssiate.html
- Involved input from 50 FORTUNE 500's
- Commercial buyers also sophisticated and aggressive in protecting financial interests of their company
- Govt's leverage should be consistent with other customers with similar size and influence in the market
- Found Most Favored Customer Pricing, Long Term Warranties, Liquidated Damages
- If a supplier refuses to give data, ask for copies of it's purchasing department's policy and standard T&C's
- Find out who are the other largest customers and call them; ask questions.
- Editor of Purchasing Magazine - large private sector companies that buy in volume get info on product costs or discounts

Other - FAR 15 Rewrite - Phase II

- Will the order of preference for obtaining needed data continue to apply to commercial items for non-competitive acquisitions?
- Will a Contracting Officer have ability to obtain cost or pricing data for modifications to commercial items?

Other Price Analysis Opportunities

- TINA Waivers
- Increase use of price analysis (not cost analysis) for pricing actions less than < \$500K

Recent Feedback

- AFMC Commercial Acquisition/Pricing Workshop 4/97
 - Workforce needs training
 - Ensuring participation of technical community in market research and price analysis
 - Need better understanding of relationship between pricing and financing
 - Policy needs to translated into training/guidance faster
 - Need commercial pricing web site for lessons learned
 - Recognition for those who do price major commercial items
 - Clear signal from headquarters that it's ok to do price analysis; it's ok not to obtain significant cost data

What's in the Future?

- Continued strong expectation to meet needs using commercial items as first preference
- Definitely more price analysis
- Legislative changes? None expected
 - strengthening ability to get data for pricing sole source commercial items?
- Greater emphasis on price analysis in training
- Evolving market segment knowledge base
- Will Govt act as normal buyer within market?
Will we intervene if prices significantly increase?